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1	HR		
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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday January 26, 1977

CG NIDC 77-020C

State Department review completed

**NATIONAL SECURITY INFORMATION**

Unauthorized Disclosure Subject to Criminal Sanctions

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25X1 National Intelligence Daily Cable for Wednesday, January 26, 1977.

25X1 [REDACTED] The NID Cable is for the purpose of informing senior US officials. 25X1

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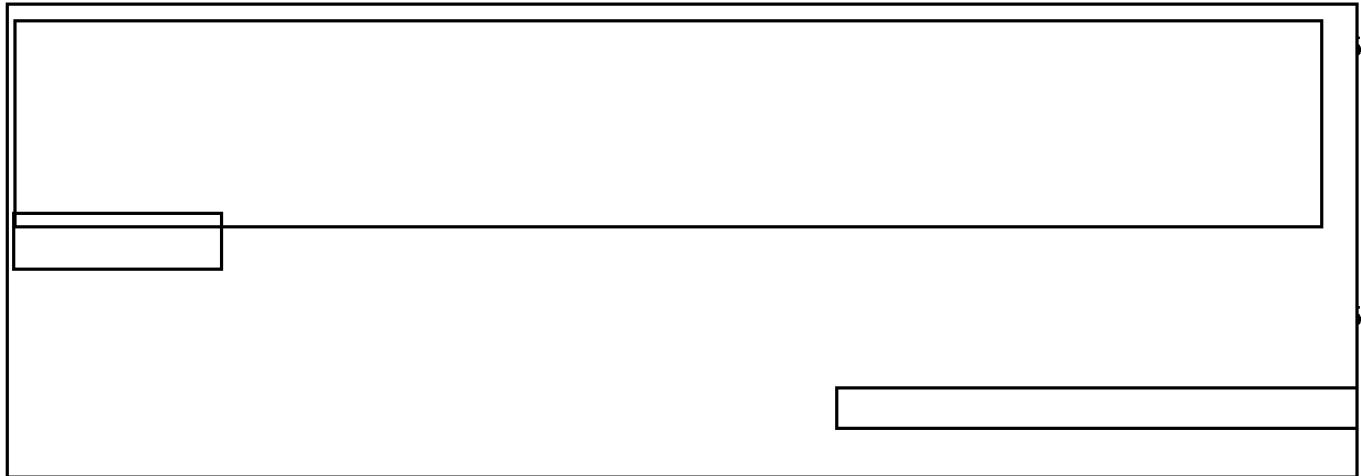
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25X1 [REDACTED]

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SPAIN: Terrorism

[REDACTED] The recent rash of terrorist activity in Spain does not so far pose a serious threat to the government's reform program, although it will complicate Prime Minister Suarez' efforts to lead Spain through a transition to political democracy.

[REDACTED] The Suarez government has already weathered several terrorist attacks without imposing harsh repressive measures that would alienate large portions of the population. The immediate danger lies in the possibility of a cycle of retaliatory killings that would gradually draw the more moderate political groups into the violence, leading to a breakdown in civil order and to military intervention.

[REDACTED] The government is probably capable of containing the violence, however, and there are no signs of impending military action. The kidnaping of the general who heads the military tribunals has incensed the military, but intervention by the armed forces is unlikely unless the situation deteriorates to the point where the security forces are unable to cope.

[REDACTED] Police have identified the kidnapers as the same men who are still holding a senior politician abducted last month. They are members of a group that purports to be militantly leftist, but the left-leaning Spanish media are speculating that the kidnapings are, in fact, the work of ultrarightists intent on discrediting the left.

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[ ] Frustrated by their inability to slow the political reforms through legal channels, untrarightists have apparently decided to take matters into their own hands. During a leftist demonstration in Madrid on Sunday, a student was shot by an unidentified man who, according to press reports, shouted the battle cry of the rightwing Guerrillas of Christ the King. The same group may also be responsible for the machine-gun attack on a leftist lawyers' meeting on Monday, killing five and wounding four.

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[ ] Police have arrested an extreme rightist in connection with the shooting of the student and have detained members of the Guerrillas of Christ the King for questioning on both incidents.

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[ ] [ ]

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[ ] The government's efforts against terrorists of both extremes are complicated by the campaign for amnesty for the remaining political prisoners in Spain. The government is reportedly not averse to releasing most of the prisoners, but does not want to seem to be caving in to the demands of either kidnapers or protesters.

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[ ] Pro-amnesty demonstrations in Madrid have produced violent clashes with the police, and on Monday another student died after apparently being hit accidentally by a police smoke bomb. The three Madrid universities closed down yesterday in mourning, and the government has banned further demonstrations for the time being.

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[ ] Strident posters calling for the demonstrations today are ascribed to the Communists and Socialists, but leaders of both parties have reportedly told government officials that they hope to calm the tense atmosphere as much as possible. The

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Socialists have told US embassy officials that their party has nothing to do with the planned rallies and that the posters and handbills are being distributed by extreme rightists.

25X1 [ ] Despite the current rash of terrorist activity and demonstrations, Prime Minister Suarez is likely to move ahead with a strategy for political reform designed to bring the broadest possible range of political tendencies into the new system.

25X1 [ ] A key element of Suarez' plan is to maintain close communication with the opposition. On Monday, he met with six opposition leaders to discuss the law setting up a legislative election for this spring. After the meeting, the Prime Minister and the opposition leaders issued an unprecedented joint communique condemning political extremism.



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ITALY: Labor Agreement

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[ ] Italian labor and industrial leaders have reached an agreement on limiting labor costs.

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[ ] The union-industry agreement, which shuns any major tampering with Italy's wage-indexation system, is a setback for Prime Minister Andreotti's stabilization program. The government has been consistently unable to secure union compliance for significant limitations on the escalator, which keeps wages rising in accordance with the cost-of-living index.

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[ ] The cost-reduction package accepted by the unions merely provides for curbs on absenteeism, greater labor mobility, and the abolition of several holidays, and promises restraint in forthcoming company-level wage negotiations.

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[ ] Because of the modesty of the unions' concession--which will probably lead to about a 2-percent reduction in this year's expected wage bill--the government will likely feel compelled to institute a program of its own to reduce labor costs. It probably will assume some of the social security costs now borne by business, while raising income and value-added taxes to cover the outlay.

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[ ] Despite Communist urgings for compromise, the unions have staunchly defended the indexation system, tying all other concessions to a government promise to leave the escalator intact. Without a basic reform of the indexation system, however, labor costs will prove impossible to control. [ ]

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CHINA-JAPAN: Uncompromising

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[ ] The new leaders in Peking and Tokyo have apparently ruled out early progress on the proposed Chinese-Japanese peace and friendship treaty. Both sides have reiterated long-standing and uncompromising positions on the treaty.

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[ ] Talks on the pact, which would formally end the state of war that has technically existed between the two countries since 1937, snagged nearly two years ago on Chinese insistence that a treaty include an implicitly anti-Soviet statement opposing "hegemonism." The Japanese agreed to such a clause in a

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1972 communique that announced the resumption of Chinese-Japanese diplomatic relations, but have been reluctant to include it in the proposed treaty; differences within the ruling party over the hegemony question, as well as pressures from Moscow, have prompted the reluctance.

25X1 [ ] Last week, Chinese Premier Hua Kuo-feng told the visiting leader of a Japanese opposition party that Tokyo was responsible for the stalemate over the treaty. Hua also attempted to urge Tokyo to move on the issue by suggesting that Peking questions the sincerity of Prime Minister Fukuda's stated hope to improve Chinese-Japanese relations.

25X1 [ ] Hua also reiterated Peking's long-standing position that the 1972 anti-hegemony clause must be included in the pact. Another senior Chinese official, making a similar point with other visiting Japanese recently, added that no equivocation by Tokyo would be tolerated.

25X1 [ ] The firmness of these Chinese views on the hegemony issue is probably designed, in part, to demonstrate the continuity of China's major foreign policy objectives, especially regarding opposition to what China sees as Soviet expansionism. The new Chinese leaders almost certainly recognize that any modification of the demand for an anti-hegemony clause might be interpreted as a softening of Peking's stand against the USSR, an impression the Chinese are plainly anxious to avoid.

25X1 [ ] On the Japanese side, Fukuda, while publicly and privately repeating his desire for early agreement on the treaty, has shown no sign of conciliation on the hegemony issue. A Japanese Foreign Ministry official last week said that Tokyo saw no need now to modify the previous administration's stand on the matter. Former foreign minister Miyazawa advocated a four-point statement that would enable the Japanese to water down the anti-Soviet nature of the clause.

25X1 [ ] The Foreign Ministry official suggested, however, that Tokyo might be prepared to compromise once serious negotiations resume, but he provided no hint as to when he thought that might be. He said the Japanese did not expect any movement from the Chinese side because of Peking's preoccupation with internal matters. [ ]

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#### ISRAEL: Defense Spending

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[ ] Israeli defense spending will probably increase in real terms in the fiscal year beginning April 1, 1977, contrary to official Israeli statements. Earlier this week, the Israeli government announced a \$13.6-billion budget--including \$4.6 billion for defense, which it asserts is a real decline of 8 percent compared with defense expenditures last year.

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[ ] In calculating the 8-percent decline, Israeli economists assumed that the increase in military costs equaled the 37-percent rise in 1976 Israeli consumer prices. Israeli defense spending, however, is much less affected by domestic inflation than the economy as a whole.

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[ ] Roughly 50 percent of the defense budget, which is financed largely by US aid, is composed of foreign purchases, the prices of which have risen slower than Israeli prices in general. Military spending is not subject to the value-added tax, which alone accounted for 16 percent of the rise in the consumer-price index. Military expenditures also are only marginally affected by the sharp cuts in food subsidies, which were a major factor in boosting prices last year. [ ]

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#### TURKEY: Coalition Disputes

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[ ] Disputes within Turkey's four-party coalition government have again led to speculation that the government will fall, possibly leading to an early parliamentary election. The election is scheduled for October, but there is some chance the government may fall after the budget bill is passed in March.

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[ ] Most of the conflicts stem from intense pre-election jockeying. Deputy Prime Minister Erbakan's National Salvation Party and the small Nationalist Action Party are engaged in bitter rivalry for control of the far right. The Action Party recently gave its chairman the authority to pull out of the coalition if he considered it in the party's interest to do so.

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[ ] The problems between Prime Minister Demirel, of the Justice Party, and the free-wheeling Erbakan continue to multiply:

--During budget debates, the Salvationists and the opposition Republican Peoples Party have been collaborating on securing a higher salary increase for civil servants than that advocated by Demirel. The two parties have also joined forces to pass through the assembly over Demirel's objection a postponement of municipal elections from June to December.

--Erbakan has awarded New Year's bonuses only to white collar employees in the state economic enterprises his party controls. Demirel has criticized the action and ordered his minister of finance to recover the bonuses if the Salvationists acted illegally.

--The Salvationists have been lobbying for the resignation of the head of Turkish radio and television because of his allegedly partisan performance. Demirel continues to support him.

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[ ] Despite these problems, the Demirel government will probably survive until October. If it should fall, however, a successor government could opt for an early election or decide to hold the vote in October as scheduled. In either case, prospects for significant Turkish movement on the Cyprus issue could be further reduced.

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